



CHILD CARE MICROENTERPRISE TOOLKIT

RESOURCES FOR CHILD CARE PROVIDERS/BUSINESS OWNERS

TIP SHEET 3: MICRO-LOANS

What is a Micro-Loan?

A micro-loan is a loan less than \$25,000 made to entrepreneurs (those who start their own businesses) who typically cannot access traditional forms of commercial financing for their businesses. Loan features, including collateral requirements, size, and term, are tailored to the needs of low-income, higher-risk entrepreneurs and are different from standard bank loans. Loans often are paired with related business training and other support services.

Find a Micro-Loan Program Near You!

Micro-loans typically are offered by microenterprise development programs and financial institutions. Microenterprise programs are operated by a wide variety of nonprofit organizations, ranging from stand-alone microenterprise organizations, which have a primary purpose to provide microenterprise development services, to multi-service organizations that may focus on broader employment, economic development, and anti-poverty strategies. Such organizations include community development corporations, loan funds, community action agencies, women's business centers, community development financial institutions, small business development centers, community development credit unions, and social service organizations, among others.

Microenterprise development programs provide business development services to people who are interested in starting or expanding a business but who have difficulty accessing capital or obtaining the management assistance they need. Most microenterprise development programs also provide support services, including business training and technical assistance and credit or access to credit.

- ★ To find a microenterprise program that may offer micro-loans or other microenterprise assistance near you, go to the **Online Directory of Microenterprise Programs** by the Aspen Institute's Microenterprise Fund for Innovation, Effectiveness, Learning and Dissemination (FIELD) program at <http://www.fieldus.org/Old/directory/index.asp> and the Association for Enterprise Opportunity's Member Program Directory at www.microenterpriseworks.org/nearyou/selectstate.asp. To find your State's microenterprise association, visit www.microenterpriseworks.org/stateassoc.
- ★ The **Community Development Financial Institutions Fund (CDFI Fund)**, a program within the U.S. Department of the Treasury, does not make loans directly to individuals. Instead, the fund awards money to community-based organizations, known as CDFIs, which work in low-income urban and rural communities across the United States. These CDFIs provide financing to those who want to start their own business, existing owners who would like to expand their business, which helps create new jobs, and residents who want to buy their first home. In addition, many CDFIs work with people on improving their credit rating or helping them create a monthly budget. To find a CDFI in your community, visit www.cdfifund.gov/docs/certification/cdfi/CDFI-state.pdf.
- ★ **Count Me In**, an online micro-lender, uses a unique credit scoring system to make loans of \$500 to \$10,000 available to women across the United States for their first business loan. The first loan must be \$5,000 or less. Each time she repays a loan in full, she is eligible to borrow again from Count Me In. The interest rates on a Count Me In loan range from 8 percent to 15 percent. The rate will be adjusted to reflect credit history, the risk of the business, and prior experience. Loans can be used for



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working capital, purchase of inventory or equipment, marketing materials for a sales event, or other uses that will help businesses generate cash. Visit www.count-me-in.org/loanapps for more information.

- ★ **First Children's Finance Program**, the Development Corporation for Children's Child Care Loan Fund, offers low-interest loans up to \$75,000 to child care businesses to create new child care spaces or improve existing ones, receive technical assistance and training, or purchase equipment, expansion, repairs, and working capital. Loans for \$5,000 or less (i.e., mini-loans) are awarded after a simplified application process and reduced fee. Development Corporation for Children is certified by the CDFI Fund of the U.S. Department of the Treasury. The program is available in Minnesota, Iowa, Kansas, Missouri, North Dakota, and Texas. For more information, visit www.dcc-corner.com/fcf.html.
- ★ **Trickle Up** is a nonprofit organization that supports small businesses, including home-based child care centers, by providing seed capital in the form of a \$700 conditional grant, as well as basic business training through one of its partners. Trickle Up entrepreneurs are selected based on the viability of their business plan and their dedication to success. Participation in training is a very important part of preparing a plan and qualifying the grant. Entrepreneurs whose business plans are approved will receive \$500 to invest in their microenterprise, and after three months of business activity, another \$200 to continue building their business. E-mail Trickle Up at usa@trickleup.org, call toll-free at 866-246-9980, or visit the Web at www.trickleup.org.
- ★ **U.S. Small Business Administration (SBA) Micro-Loan Program** provides very small loans to start-up newly established or growing small businesses. Under this program, SBA makes funds available to nonprofit community-based lenders (i.e., intermediaries) who make loans to eligible borrowers in amounts up to \$35,000. The average loan size is approximately \$10,500. Applications are submitted to the local intermediary and all credit decisions are made on the local level. Loan terms vary according to the size of the loan, planned use of funds, requirements of the intermediary lender, and needs of the small business borrower. Interest rates vary. Each intermediary lender has its own lending and credit requirements. Intermediaries generally will require some type of collateral and the personal guarantee of the business owner. Individuals and small businesses applying for micro-loan financing may be required to fulfill training and/or planning requirements before a loan application is considered. Find an intermediary lender near you at www.sba.gov/financing/microparticipants.html.

Learn More about Micro-Loans!

- ★ A **Glossary of Micro-Loan Terms** is available on the **Global Development Research Center's Virtual Library on Microcredit and Microfinance**. Examples of common micro-loan terms for which definitions are provided include assets, balance sheets, capital, collateral, credit rating, disbursement, group lending, guaranteed loan, intermediaries, lending rate, liability, line of credit, loan agreement, peer lending, and term of loan. Visit www.gdrc.org/icm/glossary to access the glossary.
- ★ A **Sample Loan Application**, by Self-Help in North Carolina, gives a general idea about what to know in order to apply for a child care micro-loan, such as eligibility rules, an application checklist of what materials might be required, program information about the child care business, and financial information. This resource is available at www.selfhelp.org/PDFs/Child%20care%20online%20application%208-05.pdf.

This tip sheet was developed by Rachel Banov, Administration for Children and Families, U.S. Department of Health and Human Services.

The Child Care Bureau does not endorse any organization, publication, or resource.